

**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John Farris, Secretary

Finance and Administration Cabinet

Honorable Sandy Lee Watkins, Henderson County Judge/Executive

Members of the Henderson County Fiscal Court

The enclosed report prepared by Simon, Underwood & Associates, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood & Associates, PSC evaluated the Henderson County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HENDERSON COUNTY FISCAL COURT

June 30, 2006

Simon, Underwood & Associates, PSC has completed the audit of the Henderson County Fiscal Court for fiscal year ended June 30, 2006. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Henderson County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$13,148,229 as of June 30, 2006. The fiscal court had unrestricted net assets of \$5,962,471 in its governmental activities as of June 30, 2006, with total net assets of \$13,132,807. In its business-type activities, total net cash and cash equivalents were \$8,516 with total net assets of \$15,422. The fiscal court had total debt principal as of June 30, 2006 of \$15,790,000 with \$520,000 due within the next year.

Deposits:

The Fiscal Court's deposits were insured and collateralized by bank securities.

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*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John Farris, Secretary
Finance and Administration Cabinet
Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Henderson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Henderson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Henderson County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John Farris, Secretary
Finance and Administration Cabinet
Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henderson County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2006 on our consideration of Henderson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Simon, Underwood & Associates PSC

Simon, Underwood & Associates, PSC

Louisville, Kentucky
August 18, 2006

HENDERSON COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Sandy Lee Watkins	County Judge/Executive
Wanda Lee Branson	Magistrate
Charles G. Alexander	Magistrate
Donald Hugh McCormick	Magistrate
James C. Hicks	Magistrate
Herbert L. McKee	Magistrate

Other Elected Officials:

Charles McCollum	County Attorney
Miles Hart, resigned August 1, 2005	Jailer
Ron Herrington, began term August 1, 2005	
Renny Mathews	County Clerk
Frances R. London	Circuit Court Clerk
Dennis Clary	Sheriff
Steve Hargis	Property Valuation Administrator
Dr. Don Cantley, deceased December 19, 2005	Coroner
Barbara Cantley, sworn in December 20, 2005	

Appointed Personnel:

Rebecca I. Carroll	County Treasurer
Brenda Duncan-Rider	Finance Officer

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OFFICE OF THE COUNTY JUDGE/EXECUTIVE
COURTHOUSE
Henderson, Kentucky 42420

SANDY L. WATKINS
HENDERSON COUNTY JUDGE/EXECUTIVE

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Management's Discussion and Analysis
June 30, 2006

The financial management of Henderson County, Kentucky offers readers of Henderson County's financial statements this narrative overview and analysis of the financial activities of Henderson County for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Henderson County had net assets of \$13,148,229 as of June 30, 2006. The fiscal court had unrestricted net assets of \$5,962,471 in the governmental activities as of June 30, 2006, with total net assets of \$13,132,807. In its enterprise fund, cash, and cash equivalents were \$8,516 with total assets of \$15,422. Total debt for governmental funds principal as of June 30, 2006 was \$15,790,000 with \$520,000 due within one year.
- The governmental activities total net assets increased by \$2,934,677 from the prior year. This increase is primarily due to the purchase of vehicles and equipment and increased expenditures in infrastructure for state grant projects.
- At the close of the current fiscal year, Henderson County governmental funds reported current assets of \$5,884,134. Of this amount, \$5,752,710 is available for spending at the government's discretion (unreserved fund balance).
- Henderson County's total indebtedness at the close of the fiscal year June 30, 2005 was \$15,790,000, of that, \$15,270,000 is long-term debt (due after 1 year) and \$520,000 is short-term debt (to be paid within 1 year). This is a reduction of the debt service payment for one year.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Henderson County's Basis financial statements. Henderson County's basis financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basis financial statements themselves.

**Henderson County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Overview of the Financial Statements (Continued)

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Henderson County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Henderson County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Henderson County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Henderson County's governmental activities include general government, protection to persons and property, roads, recreation and culture, general health and sanitation, bus services, social services, other transportation facilities and services, debt service, and capital projects. Henderson County has one business type activity-Jail Canteen Fund.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Henderson County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. All of the funds of Henderson County can be divided into broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Henderson County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Henderson County maintains (10) ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance.

Major Funds:

- General Fund
- Road Fund
- Jail Fund
- Public Properties Corporation Debt Service

Non-major Funds:

- Local Government Economic Assistance Fund
- State Grant Fund
- Economic Development Fund
- Public Properties Corporation Capital Projects
- Capital Projects General Obligation Bond Fund
- Debt Service General Obligation Bond Fund

Henderson County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for the general, road, and jail funds to demonstrate compliance with their budgets.

Proprietary Fund. The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund and the Health Insurance Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Henderson County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Government-wide Financial Analysis

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Henderson County's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Assets						
Current and other assets	\$ 5,010,756	\$ 6,288,450	\$ 12,359	\$ 8,516	\$ 5,023,115	\$ 6,296,966
Non current and capital assets	21,582,278	22,634,357	8,334	6,906	21,590,612	22,641,263
Total Assets	26,593,034	28,922,807	20,693	15,422	26,613,727	28,938,229
Liabilities						
Current and other liabilities	604,904	520,000			604,904	520,000
Long-term liabilities	15,790,000	15,270,000			15,790,000	15,270,000
Total Liabilities	16,394,904	15,790,000			16,394,904	15,790,000
Net Assets						
Invested in capital assets, net of related debt	5,187,374	6,844,357	8,334	6,906	5,195,708	6,851,263
Restricted	315,534	325,979			315,534	325,979
Unrestricted	4,695,222	5,962,471	12,359	8,516	4,707,581	5,970,987
Total Net Assets	\$ 10,198,130	\$ 13,132,807	\$ 20,693	\$ 15,422	\$ 10,218,823	\$ 13,148,229

The 2005 governmental activities has been restated to \$10,198,130 to reflect the addition of cash and cash equivalents of \$403,703 and a notes receivable of \$16,128.

**Henderson County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Government-wide Financial Analysis (Continued)

**Table 2
Henderson County's Comparison
Of General Revenue By Source And
Program Expenses By Function**

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenue						
General Revenue and Transfer	\$ 4,539,707	\$ 5,034,144	\$ 195	\$ 3,815	\$ 4,539,902	\$ 5,037,959
Charges for Services	4,146,302	4,144,416	290,819	297,630	4,437,121	4,442,046
Operating Grants and Contrib	3,877,130	5,380,926			3,877,130	5,380,926
Capital Grants and Contributi	1,717,242	1,617,435			1,717,242	1,617,435
Total Revenue	14,280,381	16,176,921	291,014	301,445	14,571,395	16,478,366
Expenses						
General Government	5,688,644	5,817,455			5,688,644	5,817,455
Protection to Persons and Pro	4,144,267	4,150,020			4,144,267	4,150,020
General Health and Sanitation	187,621	193,321			187,621	193,321
Social Services	252,170	269,472			252,170	269,472
Recreation and Culture	50,451	13,000			50,451	13,000
Roads	2,219,273	1,985,387			2,219,273	1,985,387
Bus Services	32,500	32,500			32,500	32,500
Debt Service	807,336	779,915			807,336	779,915
Capital Projects	27,093	1,174			27,093	1,174
Jail Canteen			297,211	306,781	297,211	306,781
Total Expenses	\$13,409,355	\$13,242,244	\$ 297,211	\$ 306,781	\$13,706,566	\$13,549,025

Changes In Net Assets.

Governmental Activities. Henderson County's net assets increased by \$2,934,677 in fiscal year 2006. The key element in that increase was the acquisition of new machinery equipment and vehicles, state grant projects, and the reduction of debt service.

Business Activities. Henderson County's net assets decreased by \$5,271. The key element in that was the depreciation of machinery.

As noted earlier, Henderson County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Financial Analysis of the County's Funds

Governmental Fund Overview. The focus of Henderson County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Financial Analysis of the County's Funds (Continued)

**Henderson County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

As of the end of June 2006 fiscal year, the combined ending fund balances of County governmental funds were \$5,884,134. Approximately 98% (\$5,752,710) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance is reserved to indicate that it is not available for new spending or it is committed for the various encumbrances.

The General Fund is the chief operating fund of Henderson County. At the end of June 30, 2006 fiscal year, unreserved fund balance of the General Fund was \$4,615,224. The County received \$4,140,215 in real and personal property, motor vehicle, and other taxes for approximately 53% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 47% of revenues.

The Road Fund is the fund related to County road and bridge construction and maintenance. Expenditures for fiscal year ending June 30, 2006 totaled \$3,254,923.

The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund's main source of revenue was from housing of prisoners. Holding state prisoners contributed \$1,809,200 to the jail operations.

The Local Government Economic Assistance Fund primary source of revenue comes from coal severance and mineral taxes. It had an ending balance of \$525,118. The increase in this account is due to the County changing its solid waste disposal policy.

The State Grant Fund is primarily made up of flow-through money for grants such as Juvenile Justice Grants where funding is from the state. The ending balance was \$18,680 of that amount all was for grants that had not had fiscal court approval to be reimbursed yet.

The Economic Development Fund has not had much use in the past several years. Its ending balance was \$4,028 and the only activity was the airport terminal expansion project.

The Capital Projects General Obligation Bond Fund had an ending balance of \$118,464. This is money that has not yet been spent upon the completion of the Judicial Center Project.

The Public Properties Corporation Debt Service Fund had an ending balance of \$1,965.

The Public Properties Corporation Capital Projects Fund had an ending balance of \$205,550.

The Debt Service General Obligation Bond Fund had an ending balance of zero.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Henderson County's proprietary funds are the Jail Canteen Fund and the Health Insurance Fund. The Jail Canteen Fund's total net asset balance was \$15,422. The Health Insurance Fund's total cash balance was \$402,300.

General Fund Budgetary Highlights.

Henderson County's General Fund budget was not amended during the fiscal year.

Henderson County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Capital Assets and Debt Administration.

Capital Assets. Henderson County's investment in capital assets for its government and business-type activities as of June 30, 2006, amount to \$22,629,167 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, current infrastructure additions, construction in progress for park improvements, and old jail improvement. Henderson County has reported infrastructure assets per GASB 34 provisions.

Additional information of the County's capital assets can be found in Note 4 of this report.

Table 3
Henderson County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Infrastructure Assets	\$ 1,359,651	\$ 2,279,055	\$ -	\$ -	\$ 1,359,651	\$ 2,279,055
Land and Construction						
In Progress	518,212	518,212			518,212	518,212
Buildings	18,094,544	17,785,606			18,094,544	17,785,606
Vehicles and Equip.	1,609,871	2,039,388	8,334	6,906	1,618,205	2,046,294
Total Net Capital Assets	\$ 21,582,278	\$ 22,622,261	\$ 8,334	\$ 6,906	\$ 21,590,612	\$ 22,629,167

Long-Term Debt. At the end of 2006 fiscal year, Henderson County had total bonded debt outstanding of \$15,790,000 from General Obligation Bonds and lease principal payments. Additional information on the County's long-term debt can be found in Notes 6 and 7.

Other Matters. The following factors are expected to have a significant effect on the County's financial budget or results of operations and were taken into account in developing the 2007 fiscal year budget:

- The 2007 fiscal year adopted budget continues most services at current levels.
- The cost of housing prisoners and their medical bills will have a negative impact on funding for our detention center.
- The rising cost of benefits for our employees (health insurance and retirement) is growing faster than other areas of the budget.

Requests For Information.

This financial report is designed to provide a general overview of Henderson County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Henderson County Treasurer, 20 N. Main Street, Henderson, KY 42420.

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HENDERSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

HENDERSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 6,286,434	\$ 8,516	\$ 6,294,950
Receivables	2,016		2,016
Total Current Assets	6,288,450	8,516	6,296,966
Noncurrent Assets:			
Receivables - Long Term	12,096		12,096
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	518,212		518,212
Buildings	17,785,606		17,785,606
Vehicles and Equipment	2,039,388	6,906	2,046,294
Infrastructure Assets - Net of Depreciation	2,279,055		2,279,055
Total Noncurrent Assets	22,634,357	6,906	22,641,263
Total Assets	28,922,807	15,422	28,938,229
LIABILITIES			
Current Liabilities:			
Bonds Payable	520,000		520,000
Total Current Liabilities	520,000		520,000
Noncurrent Liabilities:			
Bonds Payable	15,270,000		15,270,000
Total Noncurrent Liabilities	15,270,000		15,270,000
Total Liabilities	15,790,000		15,790,000
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	6,844,357	6,906	6,851,263
Restricted For:			
Capital Projects	324,014		324,014
Debt Service	1,965		1,965
Unrestricted	5,962,471	8,516	5,970,987
Total Net Assets	\$ 13,132,807	\$ 15,422	\$ 13,148,229

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 5,817,455	\$ 362,089	\$ 3,653,260	\$ 1,317,698
Protection to Persons and Property	4,150,020	3,757,793	326,517	297,427
General Health and Sanitation	193,321	3,778		
Social Services	269,472		26,148	
Recreation and Culture	13,000			
Roads	1,985,387	20,756	1,375,001	
Bus Service	32,500			
Debt Service	779,915			
Capital Projects	1,174			2,310
Total Governmental Activities	13,242,244	4,144,416	5,380,926	1,617,435
Business-type Activities:				
Jail Canteen	306,781	297,630		
Total Business-type Activities	306,781	297,630		
Total Primary Government	\$ 13,549,025	\$ 4,442,046	\$ 5,380,926	\$ 1,617,435

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Insurance Premium Taxes

Other Taxes

Excess Fees

Legal Process

Miscellaneous Revenues

Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (484,408)	\$	\$ (484,408)
231,717		231,717
(189,543)		(189,543)
(243,324)		(243,324)
(13,000)		(13,000)
(589,630)		(589,630)
(32,500)		(32,500)
(779,915)		(779,915)
1,136		1,136
(2,099,467)		(2,099,467)
	(9,151)	(9,151)
	(9,151)	(9,151)
(2,099,467)	(9,151)	(2,108,618)
1,579,184		1,579,184
279,677		279,677
218,619		218,619
1,521,653		1,521,653
552,457		552,457
50,277		50,277
516		516
675,115	3,620	678,735
156,646	260	156,906
5,034,144	3,880	5,038,024
2,934,677	(5,271)	2,929,406
10,198,130	20,693	10,218,823
\$ 13,132,807	\$ 15,422	\$ 13,148,229

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

HENDERSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Debt Service Fund
ASSETS				
Cash and Cash Equivalents	\$ 4,683,436	\$ 41,302	\$ 285,591	\$ 1,965
Total Assets	<u>\$ 4,683,436</u>	<u>\$ 41,302</u>	<u>\$ 285,591</u>	<u>\$ 1,965</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 32,212	\$ 36,943	\$ 26,269	\$
Cemetery Fund	36,000			
Unreserved:				
General Fund	4,615,224			
Special Revenue Funds		4,359	259,322	
Capital Projects Fund				
Debt Service Fund				1,965
Total Fund Balances	<u>\$ 4,683,436</u>	<u>\$ 41,302</u>	<u>\$ 285,591</u>	<u>\$ 1,965</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 871,840</u>	<u>\$ 5,884,134</u>
<u><u>\$ 871,840</u></u>	<u><u>\$ 5,884,134</u></u>
\$	\$ 95,424
	36,000
	4,615,224
547,826	811,507
324,014	324,014
	1,965
<u>\$ 871,840</u>	<u>\$ 5,884,134</u>

Reconciliation of the Balance Sheet-Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 5,884,134
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,183,907
Accumulated depreciation	(4,561,646)
Internal Service Funds are used by management to charge the cost of health insurance to individuals funds. The assets and liabilities of this fund are reported with governmental activities.	402,300
Receivables reported at the Government-wide level are not current financial resources and therefore are not reported in the funds.	14,112
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
General Obligation Bonds	(15,790,000)
Net Assets Of Governmental Activities	<u>\$ 13,132,807</u>

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Debt Service Fund
REVENUES				
Taxes	\$ 4,140,215	\$	\$	\$
In Lieu Tax Payments	471,364			
Excess Fees	50,277			
Licenses and Permits	210,414			
Intergovernmental	2,700,970	1,531,548	4,199,317	727,144
Charges for Services	2,016	20,756	105,536	
Miscellaneous	92,739	188,573	401,986	
Interest	117,241	6,178	14,852	767
Total Revenues	<u>7,785,236</u>	<u>1,747,055</u>	<u>4,721,691</u>	<u>727,911</u>
EXPENDITURES				
General Government	3,974,836			
Protection to Persons and Property	339,509		3,338,156	
General Health and Sanitation				
Social Services				
Recreation and Culture				
Roads		2,783,068		
Bus Service				
Debt Service	10,065			1,089,958
Capital Projects				
Administration	1,291,672	471,855	586,287	
Total Expenditures	<u>5,616,082</u>	<u>3,254,923</u>	<u>3,924,443</u>	<u>1,089,958</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>2,169,154</u>	<u>(1,507,868)</u>	<u>797,248</u>	<u>(362,047)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	(1,607,500)	1,525,000	100,000	362,250
Transfers To Other Funds	103,277	(3,277)	(747,046)	
Total Other Financing Sources (Uses)	<u>(1,504,223)</u>	<u>1,521,723</u>	<u>(647,046)</u>	<u>362,250</u>
Net Change in Fund Balances	664,931	13,855	150,202	203
Fund Balances - Beginning	4,018,505	27,447	135,389	1,762
Fund Balances - Ending	<u>\$ 4,683,436</u>	<u>\$ 41,302</u>	<u>\$ 285,591</u>	<u>\$ 1,965</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 4,140,215
	471,364
	50,277
97,012	307,426
1,502,273	10,661,252
	128,308
40,142	723,440
17,608	156,646
<u>1,657,035</u>	<u>16,638,928</u>
265,500	4,240,336
190,339	3,868,004
193,321	193,321
269,472	269,472
13,000	13,000
168,917	2,951,985
32,500	32,500
284,796	1,384,819
1,174	1,174
41,294	2,391,108
<u>1,460,313</u>	<u>15,345,719</u>
<u>196,722</u>	<u>1,293,209</u>
321,296	701,046
<u>(54,000)</u>	<u>(701,046)</u>
<u>267,296</u>	
464,018	1,293,209
407,822	4,590,925
<u>\$ 871,840</u>	<u>\$ 5,884,134</u>

The accompanying notes are an integral part of the financial statements.

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**HENDERSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

HENDERSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 1,293,209
--	--------------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Assets disposed of, Net Book Value	(61,508)
Capital Outlay	1,906,312
Depreciation Expense	(804,821)

Internal Service Funds are used by management to charge the cost of health insurance to individuals funds. The net revenues (expenses) of this fund are reported with governmental activities.	(1,403)
--	---------

Payment on receivables provide current financial resources to Governmental Funds, while at the Government-wide level, a reduction of the receivable occurs. These transactions have no effect on net assets.

Receivable Receipts	(2,016)
---------------------	---------

Financing Obligation bond principal payments are expensed in the Governmental Funds as a use of current financial resources. However, these transactions have no effect on net assets.

Financing Obligations	9,904
Bond Payments	595,000

Change in Net Assets of Governmental Activities	\$ 2,934,677
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HENDERSON COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

HENDERSON COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 8,516	\$ 402,300
Total Current Assets	<u>8,516</u>	<u>402,300</u>
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment	27,000	
Less Accumulated Depreciation	<u>(20,094)</u>	
Total Noncurrent Assets	<u>6,906</u>	
Total Assets	<u>15,422</u>	<u>402,300</u>
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	6,906	
Unrestricted	8,516	402,300
Total Net Assets	<u>\$ 15,422</u>	<u>\$ 402,300</u>

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Insurance Fund</u>
Operating Revenues		
Canteen Receipts	\$ 297,630	\$
Reimbursements		1,187,877
Total Operating Revenues	<u>297,630</u>	<u>1,187,877</u>
Operating Expenses		
Cost of Sales	228,761	
Educational and Recreational	65,992	
Claims		721,935
Administrative		473,067
Depreciation	1,428	
Miscellaneous	10,600	
Total Operating Expenses	<u>306,781</u>	<u>1,195,002</u>
Operating Income (Loss)	<u>(9,151)</u>	<u>(7,125)</u>
Nonoperating Revenues (Expenses)		
Interest Income	260	5,722
Inmate Pay From State	3,620	-
Total Nonoperating Revenues		
(Expenses)	<u>3,880</u>	<u>5,722</u>
Change In Net Assets	(5,271)	(1,403)
Total Net Assets - Beginning	<u>20,693</u>	<u>403,703</u>
Total Net Assets - Ending	<u><u>\$ 15,422</u></u>	<u><u>\$ 402,300</u></u>

The accompanying notes are an integral part of the financial statements.

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HENDERSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

HENDERSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Insurance Fund</u>
Cash Flows From Operating Activities		
Receipts From Customers	\$ 297,630	\$
Reimbursements		1,187,877
Cost of Sales	(228,761)	
Educational and Recreational	(65,992)	
Claims		(721,935)
Administrative		(473,067)
Miscellaneous	(10,600)	
Net Cash Used By		
Operating Activities	<u>(7,723)</u>	<u>(7,125)</u>
Cash Flows From Noncapital Financing Activities		
Inmate Pay From State	3,620	
Net Cash Provided By		
Financing Activities	<u>3,620</u>	
Cash Flows From Investing Activities		
Interest Earned	260	5,722
Net Cash Provided By		
Investing Activities	<u>260</u>	<u>5,722</u>
Net Decrease in Cash and Cash Equivalents	(3,843)	(1,403)
Cash and Cash Equivalents - July 1, 2005	<u>12,359</u>	<u>403,703</u>
Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 8,516</u></u>	<u><u>\$ 402,300</u></u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Loss	\$ (9,151)	\$ (7,125)
Adjustments to Reconcile Operating Income To Net Cash Used By Operating Activities		
Depreciation Expense	<u>1,428</u>	<u></u>
Net Cash Provided By Operating Activities	<u><u>\$ (7,723)</u></u>	<u><u>\$ (7,125)</u></u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

HENDERSON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Jail Inmate Fund	Jail Escrow Fund
	<hr/>	<hr/>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 50,354	\$ 10,842
Total Assets	<hr/> 50,354 <hr/>	<hr/> 10,842 <hr/>
Liabilities		
Amounts Held In Custody For Others	50,354	10,842
Total Liabilities	<hr/> 50,354 <hr/>	<hr/> 10,842 <hr/>
Net Assets		
Total Net Assets	<hr/> \$ 0 <hr/>	<hr/> \$ 0 <hr/>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Henderson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Henderson County Public Properties Corporation

The Henderson County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended within Henderson County's financial statements. All activities of the Public Properties Corporation are accounted for within a governmental fund.

C. Henderson County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Henderson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Henderson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Debt Service Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Public Properties Corporation, a blended component unit of the fiscal court.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grant Fund, Economic Development Fund, Capital Projects General Obligation Bond Fund, Debt Service General Obligation Bond Fund, and Public Properties Corporation Capital Projects Fund.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale of the 3rd Saturday in April following the delinquency date.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grant Fund, and Economic Development Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Public Properties Corporation Capital Projects Fund and the Capital Projects General Obligation Bond Fund account for the activities of the County's capital projects. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities. The purpose of this fund is to account for funds received from bond issuances for the construction of a courts facility. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

Debt Service Fund:

The Public Properties Corporation Debt Service Fund and the Debt Service General Obligation Bond Fund account for the activities of the County's long-term debt. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Governor's Office for the Local Development does not require the Fiscal Court to report or budget these funds.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statement or Interpretations.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The primary government reports the following major proprietary funds:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Health Insurance Fund – This fund accounts for the goods or services provided by one governmental department or agency to another. The Health Insurance Fund of fiscal court is reported as an internal service fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency funds, Jail Inmate Fund and the Jail Escrow Fund, are used to account for monies held by the jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Jail Inmate Fund - This fund accounts for monies received from inmates and held until inmate use.

Jail Escrow Fund - This fund accounts for monies received from former inmates that the jailer is unable to locate.

E. Deposits

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Capital Projects General Obligation Bond Fund, Public Properties Corporation Capital Projects Fund, Debt Service General Obligation Bond Fund, and Public Properties Corporation Debt Service Fund are not budgeted. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

J. Related Organizations and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Henderson County Fiscal Court: Tourism Commission and Regional Industrial Development. .

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Henderson County Fiscal Court:

Henderson City-County Planning Commission

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Henderson City-County Planning Commission (Planning Commission). The Planning Commission is a joint venture between Fiscal Court and City of Henderson to assist and promote the orderly development of the county and cities. The Fiscal Court and City of Henderson are each responsible for fifty percent of the basic administration included in the budget of the Planning Commission. During fiscal year 2006, the Fiscal Court paid the Planning Commission \$ 203,594.

Tri-County Recycling

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for Tri-County Recycling. Tri-County Recycling is a joint venture between the Fiscal Court, Union County and Webster County, and the City of Henderson to provide recycling opportunities for each county. Each participant on a pro-rata basis pays the costs associated with Tri-County Recycling. During the fiscal year 2006, the Fiscal Court paid Tri-County Recycling \$15,982.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations and Joint Venture (Continued)

West Kentucky Regional Industrial Authority

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the West Kentucky Regional Industrial Authority (Industrial Authority). The Industrial Authority is a joint venture between the Fiscal Court and Union, Webster and McLean County Fiscal Courts. Upon dissolution of the Industrial Authority, assets will be returned to the participating Fiscal Courts on a pro-rata basis.

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480 (1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of June 30, 2006, the County had the following investments which are included in cash and cash equivalents:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value (Cost)</u>
Certificates of Deposit	Greater than 90 days	\$3,966,000

Interest Rate Risk.

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, non-negotiable certificates of deposit are not subject to interest rate risk.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk.

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency. Bankers' acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. Certificates of deposit are not considered a limited investment per KRS 66.480. The County had no investments policy that would further limit its investment choices. In general, non-negotiable certificates of deposit are not subject to investment credit risk.

Custodial Credit Risk-Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. The County's certificate of deposit is included in the custodial credit risk note disclosure for deposits.

Note 3. Receivables

Henderson County Fiscal Court loaned the Henderson County Water District \$50,400 on January 10, 1990, for the purpose of the Reed/Beals waterline expansion project. This loan is to be paid back over twenty-five years with an annual payment of \$2,016 with no interest added with the final payment in May 2013. The balance of the receivable at June 30, 2006 was \$14,112.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 518,212	\$	\$	\$ 518,212
Total Capital Assets Not Being Depreciated	518,212			518,212
Capital Assets, Being Depreciated:				
Buildings	19,901,976			19,901,976
Vehicles and Equipment	3,469,718	808,105	(196,155)	4,081,668
Infrastructure	1,583,844	1,098,207		2,682,051
Total Capital Assets Being Depreciated	24,955,538	1,906,312	(196,155)	26,665,695
Less Accumulated Depreciation For:				
Buildings	1,807,432	308,938		2,116,370
Vehicles and Equipment	1,859,847	317,080	(134,647)	2,042,280
Infrastructure	224,193	178,803		402,996
Total Accumulated Depreciation	3,891,472	804,821	(134,647)	4,561,646
Total Capital Assets, Being Depreciated, Net	21,064,066	1,101,491	(61,508)	22,104,049
Governmental Activities Capital Assets, Net	<u>\$ 21,582,278</u>	<u>\$ 1,101,491</u>	<u>\$ (61,508)</u>	<u>\$ 22,622,261</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 27,000	\$	\$	\$ 27,000
Total Capital Assets Being Depreciated	27,000			27,000
Less Accumulated Depreciation For:				
Vehicles and Equipment	18,666	1,428		20,094
Total Accumulated Depreciation	18,666	1,428		20,094
Total Capital Assets, Being Depreciated, Net	8,334	(1,428)		6,906
Business-Type Activities Capital Assets, Net	<u>\$ 8,334</u>	<u>\$ (1,428)</u>	<u>\$ -</u>	<u>\$ 6,906</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 127,134
Protection to Persons and Property	346,272
Roads, Including Depreciation of General Infrastructure Assets	<u>331,415</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 804,821</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 1,428</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,428</u>

Note 5. Short-term Debt

On July 1, 2005, Henderson County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,337,600, with principal being due on January 31, 2006. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$ 6,127.

Changes in Short-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Kentucky Advance Revenue Program	<u>\$</u>	<u>\$ 1,337,600</u>	<u>\$1,337,600</u>	<u>\$</u>	<u>\$</u>
Governmental Activities Short-term Liabilities	<u>\$ 0</u>	<u>\$ 1,337,600</u>	<u>\$ 1,337,600</u>	<u>\$ 0</u>	<u>\$ 0</u>

Note 6. Long-term Debt

A. Detention Center

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Center Project) Series 1995 on June 29, 1995, for the purpose of paying the cost of construction a new county detention facility and the cost of issuance of the bonds. The issue amount of the bonds was \$7,060,000.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 6. Long-term Debt (Continued)

A. Detention Center (Continued)

The Henderson County Public Properties Corporation entered into a lease agreement with the County in which the County will lease from the Corporation the detention center facility in the amount of the aggregate of the interest on and the principal of the bonds, which are due and payable during the lease period, the cost of operation and maintenance of the project, the cost of insuring the project and the annual trustee fee. Rental payments are due semiannually on June 1st and December 1st of each year. The interest rate on the bonds is 5.00%.

On August 1, 2003, the County of Henderson, Kentucky issued General Obligation Refunding and Improvement Bonds (Detention Center Project), Series 2003. The bonds were for the purpose of (1) refunding the outstanding Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Facility Project) Series 1995 maturing on June 1, 2007 through June 1, 2015, inclusive (the "Series 1995 Bonds") and (2) paying the costs associated with the expansion, renovation, improvement and equipping of the Detention Facility. The bonds were paid in full in May 2006.

B. Courts Facility

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Bonds (Court Facilities Project), Series 2000 on April 15, 2000 for the purpose of financing the cost of the acquisition, construction, and equipping of a court facility and the cost of issuance of the bonds. The issue amount of the bonds was \$9,975,000. The corporation and the county have entered into an annually renewable lease, dated April 15, 2000, wherein the county shall lease the courts facility from the corporation at an agreed rental which will be used to pay the principal and interest of the bonds.

The Henderson County Public Properties Corporation and the Henderson County Fiscal Court entered into a lease/sublease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (AOC), in which AOC wishes to use the courts facility and will sublease from the corporation the courts facility, and make payments in the amount of the court's share of the interest on and the principal of the construction of the courts facility, but not to exceed 8% annually of capital costs. The lease is renewable April 15 of each even numbered year. Rental payments are due semiannually on January 20 and July 20 of each year. The interest rate on the bonds is 5.55%. The outstanding balance as of June 30, 2006 is \$8,725,000.

Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 260,000	\$ 470,200
2008	270,000	457,460
2009	285,000	444,096
2010	300,000	429,846
2011	315,000	414,696
2012-2016	1,825,000	1,811,814
2017-2021	2,370,000	1,263,792
2022-2026	3,100,000	535,976
Totals	<u>\$ 8,725,000</u>	<u>\$ 5,827,880</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 6. Long-term Debt (Continued)

C. Detention Facility

The County of Henderson, Kentucky issued bonds dated August 1, 2003, for the purpose of (1) refunding the outstanding Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Facility Project) Series 1995 maturing June 1, 2006 through June 1, 2016 (2) paying the costs associated with the expansion, renovation, improvement, and equipping of the Detention Facility located in Henderson, Kentucky. The issue amount of the bonds was \$7,080,000. Interest on the bonds will be payable semi-annually on June 1 and December 1 of each year commencing December 1, 2003. The bonds will mature on June 1 of each year thereafter. The outstanding balance as of June 30, 2006 was \$7,065,000.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 260,000	\$ 279,671
2008	265,000	272,521
2009	315,000	264,571
2010	320,000	253,940
2011	335,000	242,340
2012-2016	1,910,000	1,012,753
2017-2021	2,500,000	580,108
2022-2023	1,160,000	76,060
Totals	<u>\$ 7,065,000</u>	<u>\$ 2,981,964</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 6. Long-term Debt (Continued)

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 16,385,000	\$	\$ 595,000	\$15,790,000	\$ 520,000
Financing Obligations (Note 7)	9,904		9,904		
Governmental Activities					
Long-term Liabilities	<u>\$ 16,394,904</u>	<u>\$</u>	<u>\$ 604,904</u>	<u>\$15,790,000</u>	<u>\$ 520,000</u>

Note 7. Financing Obligations

On May 14, 2003, the Henderson County Fiscal Court borrowed \$29,254 from Kentucky Association of Counties Leasing Trust for a phone system. The interest rate was 1.98% with principal due annually and interest due monthly. The obligation was paid in full on January 20, 2006.

Note 8. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$115 in interest on financing obligations and \$779,190 in interest on bonds.

Note 9. Commitments and Contingencies

A. Industrial Revenue Bonds

The Henderson County Fiscal Court has adopted ordinances approving the issuance of Industrial Revenue Bonds and Pollution Control Bonds. Such bond issues do not constitute a general debt, liability, or moral obligation of Henderson County. Accordingly, these financial statements do not include any assets or liabilities related to the issuance of these various bonds issues.

B. Ambulance Service Agreement

In April 1983, the County of Henderson along with the City of Henderson entered into an agreement with Community Methodist Hospital for the operation of a countywide ambulance service. The hospital agreed to operate the ambulance service with both the City and County reimbursing the hospital for any operating loss incurred on a quarterly basis. Expenses incurred under this agreement for fiscal year ended June 30, 2006, were \$182,973.

**HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

Note 9. Commitments and Contingencies (Continued)

C. Recycling Interlocal Agreement

In response to KRS 224.830 and reducing solid waste stream at municipal landfills by 25%, the County of Henderson entered into an interlocal agreement with Union and Webster Counties and Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The County is responsible for 22.5% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for fiscal year ended June 30, 2006, were \$15,982.

D. Solid Waste Transfer Station Interlocal Agreement

The County of Henderson entered into an agreement with the City of Henderson to fund 50% of the construction and operation of a solid waste transfer station to be used in the collection and disposal of solid waste collected within the City and County. The agreement is for a five-year period, with the option to renew for four, consecutive, five-year terms unless either party provides written notice. The County's portion of operational costs for fiscal year ended June 30, 2006, was \$28,993. The County decided not to renew this agreement in fiscal year 2005.

E. West Kentucky Regional Industrial Development Authority-Kenergy Loan Guarantee

Henderson County in conjunction with Webster, Union, and McLean Counties issued an ordinance, which guarantees a portion of the \$450,000, zero-interest rural development loan made to Kenergy from the West Kentucky Regional Industrial Development Authority, to assist in promoting development of the 4Star Industrial Park. Henderson County authorized a guarantee of \$150,000. Webster County also guaranteed \$150,000 and Union and McLean Counties each guaranteed \$75,000.

Note 10. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 11. Deferred Compensation

On March 1997, the Henderson County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 12. Self Insurance

Henderson County Fiscal Court elected to begin a partially self-funded health insurance plan as of April 1, 1997. This partially self-funded insurance plan covers all full-time employees. County employees are required to contribute 20% of the premium payments for their plan and the County pays for the remaining 80% of the County employee's coverage. The County maintains only one insurance plan with various levels of coverage (i.e. single, family, etc.). The Riverport Authority employees also contribute to this fund.

This partially self-funded insurance plan has two distinct components that the Fiscal Court must pay. The first component is fixed cost, which consists of administrative fees associated with operating of the plan and specific and aggregate reinsurance costs that cap the County's claims exposure on an individual and aggregate basis. Fixed costs for the fiscal year ending June 30, 2006 were \$473,067. The second component is claims cost. Henderson County is responsible for paying all claims as they are incurred. Once an individual exceeds \$35,000 in claims or the County's aggregate claims exceed the predetermined maximum, then the County will receive reimbursement from the carrier. Claims for the fiscal year ended June 30, 2006 were \$721,935. The Fiscal Court's contract is with North America Administrators. The Health Insurance Fund had a balance of \$402,300 as of June 30, 2006.

Note 13. Prior Period Adjustments

The beginning net assets for governmental activities were restated for the following:

	Net Assets
Beginning Balance	\$ 9,778,299
Plus:	
Helath Insurance Fund	\$ 403,703
Note Receivable	16,128
	<hr/>
Restated Beginning Balance	<u>\$10,198,130</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,579,575	\$ 3,579,575	\$ 4,140,215	\$ 560,640
In Lieu Tax Payments	81,700	81,700	471,364	389,664
Excess Fees	73,500	73,500	50,277	(23,223)
Licenses and Permits	174,000	174,000	210,414	36,414
Intergovernmental	2,512,891	2,512,891	2,700,970	188,079
Charges for Services	2,016	2,016	2,016	
Miscellaneous	52,250	52,250	92,739	40,489
Interest	100,000	100,000	117,241	17,241
Total Revenues	<u>6,575,932</u>	<u>6,575,932</u>	<u>7,785,236</u>	<u>1,209,304</u>
EXPENDITURES				
General Government	3,977,207	4,143,324	3,974,836	168,488
Protection to Persons and Property	547,645	443,991	339,509	104,482
Debt Service	20,000	14,700	10,065	4,635
Capital Projects	540,000	40,986		40,986
Administration	851,771	1,293,622	1,291,672	1,950
Total Expenditures	<u>5,936,623</u>	<u>5,936,623</u>	<u>5,616,082</u>	<u>320,541</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>639,309</u>	<u>639,309</u>	<u>2,169,154</u>	<u>1,529,845</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			103,277	103,277
Transfers To Other Funds	<u>(1,950,000)</u>	<u>(1,950,000)</u>	<u>(1,607,500)</u>	<u>342,500</u>
Total Other Financing Sources (Uses)	<u>(1,950,000)</u>	<u>(1,950,000)</u>	<u>(1,504,223)</u>	<u>445,777</u>
Net Changes in Fund Balance	(1,310,691)	(1,310,691)	664,931	1,975,622
Fund Balance - Beginning	<u>1,310,691</u>	<u>1,310,691</u>	<u>4,018,505</u>	<u>2,707,814</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,683,436</u>	<u>\$ 4,683,435</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,195,835	\$ 1,665,835	\$ 1,531,548	\$ (134,287)
Charges for Services	18,000	18,000	20,756	2,756
Miscellaneous	4,000	174,000	188,573	14,573
Interest	2,500	2,500	6,178	3,678
Total Revenues	<u>1,220,335</u>	<u>1,860,335</u>	<u>1,747,055</u>	<u>(113,280)</u>
EXPENDITURES				
Roads	2,270,840	3,014,253	2,783,068	231,185
Administration	593,675	490,262	471,855	18,407
Total Expenditures	<u>2,864,515</u>	<u>3,504,515</u>	<u>3,254,923</u>	<u>249,592</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,644,180)</u>	<u>(1,644,180)</u>	<u>(1,507,868)</u>	<u>136,312</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			1,525,000	1,525,000
Transfers To Other Funds	<u>1,600,000</u>	<u>1,600,000</u>	<u>(3,277)</u>	<u>(1,603,277)</u>
Total Other Financing Sources (Uses)	<u>1,600,000</u>	<u>1,600,000</u>	<u>1,521,723</u>	<u>(78,277)</u>
Net Changes in Fund Balance	(44,180)	(44,180)	13,855	58,035
Fund Balance - Beginning	<u>44,180</u>	<u>44,180</u>	<u>27,447</u>	<u>(16,733)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (0)</u>	<u>\$ 41,302</u>	<u>\$ 41,302</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 3,597,474	\$ 3,697,474	\$ 4,199,317	\$ 501,843
Charges for Services	128,000	128,000	105,536	(22,464)
Miscellaneous	474,500	474,500	401,986	(72,514)
Interest	700	700	14,852	14,152
Total Revenues	<u>4,200,674</u>	<u>4,300,674</u>	<u>4,721,691</u>	<u>421,017</u>
EXPENDITURES				
Protection to Persons and Property	3,293,024	3,348,967	3,338,156	10,811
Debt Service	623,200	662,757		662,757
Administration	584,314	588,814	586,287	2,527
Total Expenditures	<u>4,500,538</u>	<u>4,600,538</u>	<u>3,924,443</u>	<u>676,095</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(299,864)</u>	<u>(299,864)</u>	<u>797,248</u>	<u>1,097,112</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	225,000	225,000	100,000	(125,000)
Transfers To Other Funds			(747,046)	(747,046)
Total Other Financing Sources (Uses)	<u>225,000</u>	<u>225,000</u>	<u>(647,046)</u>	<u>(872,046)</u>
Net Changes in Fund Balance	(74,864)	(74,864)	150,202	225,066
Fund Balance - Beginning	<u>74,864</u>	<u>74,864</u>	<u>135,389</u>	<u>60,525</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (0)</u>	<u>\$ 285,591</u>	<u>\$ 285,591</u>

HENDERSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**HENDERSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

HENDERSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	LGEA Fund	State Grant Fund	Economic Development Fund	Capital Projects General Obligation Bond Fund	Public Properties Corporation Capital Projects Fund	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 525,118	\$ 18,680	\$ 4,028	\$ 118,464	\$ 205,550	\$ 871,840
Total Assets	<u>\$ 525,118</u>	<u>\$ 18,680</u>	<u>\$ 4,028</u>	<u>\$ 118,464</u>	<u>\$ 205,550</u>	<u>\$ 871,840</u>
FUND BALANCES						
Unreserved:						
Special Revenue Fund	\$ 525,118	\$ 18,680	\$ 4,028	\$	\$	\$ 547,826
Capital Projects Fund				118,464	205,550	324,014
Total Fund Balances	<u>\$ 525,118</u>	<u>\$ 18,680</u>	<u>\$ 4,028</u>	<u>\$ 118,464</u>	<u>\$ 205,550</u>	<u>\$ 871,840</u>

The accompanying notes are an integral part of this financial statement.

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HENDERSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

HENDERSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	LGEA Fund	State Grant Fund	Economic Development Fund	Capital Projects General Obligation Bond Fund
REVENUES				
License and Permits	\$ 97,012	\$	\$	\$
Intergovernmental	1,083,492	160,701	258,080	
Miscellaneous	40,142			
Interest	5,975	129	88	4,174
Total Revenues	<u>1,226,621</u>	<u>160,830</u>	<u>258,168</u>	<u>4,174</u>
EXPENDITURES				
General Government	65,500		200,000	
Protection to Persons and Property	189,963	376		
General Health and Sanitation	193,321			
Social Services	114,132	155,340		
Recreation and Culture	13,000			
Roads	168,917			
Bus Service	32,500			
Debt Service				
Capital Projects				429
Administration	618		40,676	
Total Expenditures	<u>777,951</u>	<u>155,716</u>	<u>240,676</u>	<u>429</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>448,670</u>	<u>5,114</u>	<u>17,492</u>	<u>3,745</u>
Other Financing Sources (Uses)				
Transfer From Other Funds			36,500	
Transfer To Other Funds		(4,000)	(50,000)	
Total Other Financing Sources (Uses)		<u>(4,000)</u>	<u>(13,500)</u>	
Net Change in Fund Balance	448,670	1,114	3,992	3,745
Fund Balances - Beginning	76,448	17,566	36	114,719
Fund Balances - Ending	<u>\$ 525,118</u>	<u>\$ 18,680</u>	<u>\$ 4,028</u>	<u>\$ 118,464</u>

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006
(Continued)

Debt Service General Obligation Bond Fund	Public Properties Corporation Capital Projects Fund	Total Non-Major Governmental Funds
\$	\$	\$ 97,012
		1,502,273
		40,142
	7,242	17,608
	7,242	1,657,035
		265,500
		190,339
		193,321
		269,472
		13,000
		168,917
		32,500
284,796		284,796
	745	1,174
		41,294
284,796	745	1,460,313
(284,796)	6,497	196,722
284,796		321,296
		(54,000)
284,796		267,296
	6,497	464,018
	199,053	407,822
\$ 0	\$ 205,550	\$ 871,840

The accompanying notes are an integral part of this financial statement.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

The Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated August 18, 2006. Henderson County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henderson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Henderson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Simon, Underwood & Associates PSC". The script is cursive and fluid.

Simon, Underwood & Associates, PSC

Louisville, Kentucky
August 18, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

HENDERSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
HENDERSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Henderson County, Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Name

County Judge/Executive


Name

County Treasurer

